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PRESS BACKGROUNDER

COMMODORE BUSINESS MACHINES

A Commodore International Limited Company

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COMMODORE BUSINESS MACHINES

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Commodore Business Machines (CBMTM), a Commodore International company, was established in 1976, following acquisition by Commodore of MOS Technology, Inc., a manufacturer of semiconductor and memory devices and microprocessors.

CBM's initial product was the first stand-alone self-contained personal computer, the Commodore PET. Introduced in 1977, the PET has become one of the world's most popular systems of its kind, second only to Radio Shack, and with substantially more installations than Apple II.

Commodore's strategy in entering the computer business is founded on upward integration through the application of component technology to the design and manufacture of end-user products. In turn, this strategy complements Commodore's downward integration into semiconductor components for incorporation into its consumer line of watches and calculators.

In fiscal 1979, CBM accounted for 49 percent of Commodore's sales and 65 percent of income from operations.

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During fiscal 1980, CBM will expand its position in home, office, hobbyist, and educational computing, in addition to continuing its marketing of commercial systems. Future new product developments will continue to draw upon Commodore's recognized capability for innovative product design and marketing, its low-cost, integrated manufacturing base, and an established worldwide distribution and service organization.

COMMODORE INTERNATIONAL LIMITED, The Parent Company

Commodore International Limited, chartered in the Bahamas, is a broadly based, fully integrated manufacturer of advanced computer systems and electronic products.

Commodore's business is divided into four segments: (1) consumer products, (2) computer systems, (3) electronic components, and (4) office equipment. A separate operating group is responsible for each segment. Within the operating groups, or divisions, Commodore subsidiaries manufacture and market the company's products.

CORPORATE HISTORY

Commodore International was formed in Canada in 1958 as a marketing organization, assembling and selling typewriters and electromechanical business machines. Marketing remains today a fundamental strength of the company, but over the

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years new dimensions have been added through a judicious program of acquisitions and through an increasingly significant R&D effort.

In 1968, having sold off its interests in electro-mechanical calculators and adding machines, the company became one of the first U.S. companies to actively market electronic calculators. By 1970, it was assembling and marketing calculators carrying its own name, and by the following year it was the first company to mass-market a compact personal calculator, the C108. In that year it also introduced the first rechargeable calculator, the Minuteman 1. In 1975, the company expanded its calculator market to Europe, where it is today the major supplier of small calculators.

In 1976, with the acquisition of Optical Diodes, Inc., Commodore embarked on a plan to become a vertically integrated marketer of consumer electronics and computer systems. A manufacturer of light-emitting diode displays, ODI gave Commodore its beginning capability in the manufacture of electronic watches.

As the market for electronic calculators became temporarily saturated in 1976, Commodore integrated its manufacturing in order to remain a low-cost producer in the face of increasing competition from semiconductor manufacturers. One

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step in this direction was the acquisition of MOS Technology, a Valley Forge, Pennsylvania, manufacturer of MOS chips used in consumer products. The following year, Frontier Manufacturing, Inc., an important producer of integrated circuits, was acquired.

The acquisition of MOS Technology and Frontier gave Commodore the capability to produce the MOS 6502, one of the most widely used and acclaimed microprocessors, as well as RAMs and ROMs. Using these components, the company introduced the Commodore PET--the first low-priced, stand-alone personal computer.

Early in 1979, Commodore acquired Micro Display Systems, Inc., of Dallas, Texas, bringing to the company development and manufacturing capabilities for liquid crystal displays and electronic watch modules. These capabilities are also being applied to the new electronic programmable thermostat being introduced in January 1980.

FINANCIAL HIGHLIGHTS

Computer Systems sales of over \$34 million in fiscal 1979 accounted for 49 percent of sales for Commodore International, more than double the 24 percent recorded in fiscal 1978. Most of this is attributable to rapidly increasing sales of the PET and CBM computer systems, both in the U.S. and abroad.

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Net sales for Commodore International for the first quarter of fiscal 1980 ended September 30, 1979, were \$24,750,000, a 99 percent increase over the \$12,435,000 in sales reported for the first quarter of fiscal year 1979. Net income for the quarter before extraordinary credits more than doubled to \$2,355,000 versus first quarter 1979 net income of \$1,150,000. Earnings per share before extraordinary credits were \$1.05 versus \$.55 per share reported last year.

Commodore International shares are traded on the American Stock Exchange under the symbol "CBU."

PRODUCT LINE

The key ingredient in the growth of Commodore Business Machines, which in fiscal 1979 emerged as the largest segment of Commodore International's business, has been the pioneering development of the PET computer, retailing for less than \$1000.

A further increase in market share in personal computers and low-cost small business systems is projected for fiscal 1980. Several new products for that market are planned, broadening CBM's position in personal computers for use by professionals for offices and homes, by hobbyists, and in the educational market. Products have recently been introduced for commercial markets.

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The CBM product line includes computers, peripherals, and software.

Computers

The PET and CBM and CBM computer are available in 8K, 16K, and 32K memory versions.

The PET 2001-8 is the standard PET with a typewriter style keyboard and 8K bytes of memory; an external cassette is optional. It carries a suggested retail price of \$795.

The PET 2001-16N, priced at \$995, has 16K bytes of memory and large keyboard with separate numeric pad and graphics on keys. External cassette is optional.

The CBM 2001-16B, is identical to the above but has a standard typewriter keyboard, a numeric keypad, and no graphic keys. Suggested retail is \$995.

The PET 2001-32N, identical to the 2001-16N but with 32K bytes of memory, is priced at \$1,295.

The CBM 2001-32B, is identical to the 2001-16B with 32K bytes of memory. Suggested retail is \$1,295.

Peripherals

CBM's line of peripherals includes two printers, dual floppy disks, and an external cassette player/recorder.

The CBM 2022 Tractor Feed Printer is a programmable high specification printer that can print all CBM characters and graphics on multiple-copy forms. Line spacing is adjustable under program control. The 2022 is priced at \$995.

The CBM 2023 Printer, with the same print capability as the 2022, is a friction-feed printer with fixed line spacing. It is priced at \$849.

The CBM 2040 Dual Drive Mini Floppy Disk, an intelligent peripheral, uses none of the user memory of the CBM computer. A total of 340K bytes of user storage is available on two standard 5 1/4" disks, without the problems of double tracking or double density. The 2040 is priced at \$1,295.

The C2N external cassette player/recorder, for use with any of the PET models, is priced at \$95.

Software

Well over 100 programs and program packages are available for the PET/CBM computer systems, including games, computer-assisted education packages, financial programs, and system software for programmers.

Commodore recently announced a sophisticated word processing system for the CBM 2001-32B computer. The new system, WordPro III, offers capabilities normally available only on dedicated word processor systems. It complements the WordPro I and II systems for the 8K byte and 16K byte CBM computers.

RESEARCH AND DEVELOPMENT

Since 1976, Commodore has substantially increased its commitment to research and development from \$800,000 in

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fiscal 1976 to \$3.6 million--over 5 percent of sales--in fiscal 1979. For fiscal 1980, expenditures on research and development are budgeted to increase another 50 percent to more than \$5 million.

Commodore's primary R&D thrust is in the application of solid-state technology to the development of primary components for the Computer Systems and Consumer Products Divisions. The development of new microprocessors, RAMs, ROMs, general logic circuits, and clocks has stimulated the proliferation of products applying digital technology--ranging from convenience products such as watches and home appliances to strategic and scientific systems for defense and space applications. Commodore's successful entry into computer manufacturing evolved from its development of the 6502 chip, which is the basic module of the PET computer.

Recent development of additional advanced CMOS microprocessors and other semiconductor components is expected to lead to the introduction in fiscal 1980 of new products in the PET and CBM series, including printers, second-cassette drives, and communications modems that will employ advanced techniques of micro-miniaturization in product design and manufacture.

During fiscal 1980, Commodore will also be developing enhanced ROM and RAM products, and work is moving forward on a large-area LCD to be employed in computers and consumer products.

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The electronic programmable thermostat, introduced at CES in January 1980, is expected to be only the first in a series of products involving the application of electronics to energy conservation.

Functionally, research and development at Commodore is decentralized, with each of the operating divisions maintaining a close and constant interface between R&D and manufacturing, process engineering, and marketing.

MARKETING

Commodore markets worldwide through its own direct sales organization in eight countries and through distributors in over 25 countries. Internationally, the company employs over 500 people in sales and service.

In fiscal 1979, sales of \$39 million in North America accounted for 55 percent of total sales of \$71.1 million. European sales of \$21.4 million accounted for 30 percent, and Asian sales of \$10.7 million for 15 percent.

Sales in fiscal 1979 saw a particularly sharp increase in European markets, up 68 percent from \$12.7 million in fiscal 1978, and in Asia, up 270 percent from \$2.9 million in fiscal 1978. In both areas, increased market penetration of the PET computer was the principal reason for the gain in volume. Sales of PET in North America also rose sharply.

Commodore sales are made direct to dealers in the U.S., Canada, England, Germany, Switzerland, Hong Kong, and Japan. Elsewhere, sales are made by the company's international sales subsidiary, Commodore Electronics, Ltd., to distributors who, in turn, sell to local dealers. The typical dealer is a retail store selling personal computers, business machines, and consumer electronic products such as the Commodore line of watches and hand-held calculators.

Commodore owns several "Mr. Calculator" retail stores in the U.S. These stores, specializing in the sale of Commodore computer systems and consumer products, serve as a source of market research on consumer attitudes and as a pilot project for evaluating the retail computer and consumer electronics business.

DEALER NETWORK AND SUPPORT

CBM markets its systems and products through Commodore International's worldwide network of distributor, sales, and manufacturing organizations. In fiscal 1980, recognizing that inflation and the high price of borrowing will impact heavily on dealers and distributors, CBM is instituting an aggressive dealer support program. The program includes expanded credit arrangements, improved warranties, and a new emergency ordering program for rapid turnaround of parts.

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CBM is also continuing its highly successful Service Seminar program, which trains dealers to fully service CBM computers and peripherals. Plans call for 10 seminars to be held in 1980.

FACILITIES

Commodore's executive offices are located with its manufacturing facility in the Oakmead industrial complex in Santa Clara, California, where the company occupies one of the first solar energy industrial buildings in the U.S. Solar power supplies 90 percent of the space and water heating and air-conditioning requirements of the 60,000 square foot building, virtually eliminating the need for fossil fuel consumption.

The Santa Clara facility was opened in fiscal 1979 and now produces a full line of Computer Systems Division products, including computer peripherals such as printers and floppy disks. It employs the latest available technology in assembly and materials handling.

In addition to the Santa Clara facility, Commodore International maintains seven additional manufacturing and service facilities throughout the world. Three others in the U.S. are in Newport Beach, California, where CMOS integrated circuits are designed and manufactured; Valley Forge, Pennsylvania, where RAMs, ROMs, and microcircuits are designed

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and manufactured; and Dallas, Texas, where LCD devices are designed and manufactured.

Office equipment and business machines are manufactured in a 207,000 square foot facility in Toronto, Canada.

Consumer electronics products are manufactured in Hong Kong.

Currently, service facilities for consumer products and computer systems are located in Osaka, Japan, and Slough, England.

In line with the company's introduction of its new line of calculators, Service Centers are being opened in Santa Clara, Dallas, and Norristown, New Jersey, and six more centers will be added by the end of 1980.

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